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NEWS

Federal Housing Finance Board Adopts Final Rule Limiting Excess Stock

The Board of Directors of the Federal Housing Finance Board (Finance Board) today adopted a final rule prohibiting a Federal Home Loan Bank (Bank) from issuing new excess stock to members if the amount of member excess stock exceeds one percent of the Bank's assets. Under the rule, any Bank with excess stock greater than one percent of its total assets will be prevented from further increasing member excess stock by paying stock dividends or otherwise issuing new excess stock.

Excess stock, also referred to as "voluntary stock" is capital stock that a member holds in excess of the amount of membership stock and/or activity stock that it is required to purchase as a condition of membership or to support activities with the Banks, respectively.

Finance Board Chairman Ronald Rosenfeld stated, "We have taken an important step in fulfilling our statutory responsibility regarding the prudential operation of the Banks. Excess stock has been at the root of significant safety and soundness issues at several Banks and presents mission issues for other Banks. Setting a limit on member excess stock will help ensure that the Banks remain safe and sound, appropriately capitalized, and able to raise funds in the capital markets."

As part of its action today, the Finance Board also finalized a provision of the proposed rule requiring that the Banks declare and pay dividends only out of known income.

The proposed rule, which would have established a retained earnings minimum as well as a limit on member excess stock, was published in the Federal Register on March 15, 2006 and was open for public comment for 120 days following publication. The final rule will become effective 30 days after the date of publication in the Federal Register. The Finance Board intends to address retained earnings in a later rule-making.

Also today, the Finance Board voted to reappoint the 25 public interest directors remaining on the boards of the 12 Banks to serve for an additional one year, commencing on January 1, 2007. This was accomplished by appointing those individuals to fill vacant appointed directorships with one year remaining on their terms. This action will preserve a core of 25 experienced appointed directors at the Banks.

Chairman Rosenfeld stated, "While corporate governance is enhanced by well-qualified public interest directors or "outside directors," I believe that a better practice would be for the regulator not to appoint directors to the entities that it regulates. As I had testified earlier, while the Congress was engaged in a worthy GSE reform debate, which may have affected the directorship structure, I did not believe it appropriate to act in a manner that might preempt the Congress. Because the Congress has adjourned without resolving the GSE debate, it is imperative that we act to appoint public interest directors to the Banks, and immediately begin the process for appointing persons who have the requisite skills and experience to be a public interest director of an enterprise as complex and important to the nation's housing finance as a Federal Home Loan Bank."

The Federal Housing Finance Board is an independent agency in the executive branch that oversees the safety, soundness, and mission of the 12 regional Federal Home Loan Banks. The Banks are government-sponsored enterprises created in 1932 to provide low-cost funding for housing finance. They have more than 8,100 financial institutions as members, including commercial banks, savings and loans, insurance companies and federally insured credit unions. More information can be found at http://www.FHFB.gov

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